



MEMORANDUM

TO: Kevin Fry, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Bob Carcano, Senior Counsel, NAIC Investment Analysis Office

CC: Charles Therriault, Director, NAIC Securities Valuation Office

DATE: October 17, 2016

RE: Proposed Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)* to Update the Categories of Credit Ratings for the NRSROs on the NAIC CRP List.

1. Introduction – At the present time the NAIC List of credit rating providers (CRPs) does not identify the credit rating categories for which a CRP has registered as a nationally recognized statistical rating organization (NRSRO). The credit rating categories for which a credit rating agency may be an NRSRO are identified in the NRSRO definition used in the federal Securities Exchange Act of 1934.¹ The credit rating categories in which a credit rating agency has registered as an NRSRO are shown in the Order Granting Registration² published by the U.S. Securities and Exchange Commission (SEC) on its website when it finalizes the application. To address the possibility that the information on the SEC website may not have been updated, we also reviewed each CRP’s annual Form NRSRO certification.[‡] The proposed amendment would identify the credit rating categories for which each CRP has registered as an NRSRO.

2. Proposed Amendment – Proposed additional text is shown in red.

a) List of Credit Rating Providers and the Equivalent of their Credit Ratings to NAIC Designations

(i) CRPs on the NAIC Credit Rating Provider List

The CRPs that provide Credit Rating Services to the NAIC, either pursuant to the terms of [Section 4 of this Part](#) or otherwise, are:

- Moody's Investor's Service, for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Standard and Poor's, for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.

[‡] The information for Egan Jones on the SEC website differed from the information on Egan Jones’ Form NRSRO.

- Fitch Ratings, for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Dominion Bond Rating Service (DBRS), for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- A.M. Best Company (A.M. Best) for credit ratings issued to insurance companies; corporate issuers and issuers of asset-backed securities.
- Morningstar Credit Ratings, LLC for credit ratings issued to financial institutions, brokers, or dealers; corporate issuers and issuers of asset-backed securities.
- Kroll Bond Rating Agency for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Egan Jones Rating Company for credit ratings issued to financial institutions, brokers, or dealers; insurance companies and corporate issuers.
- HR Ratings de Mexico, S.A. de C.V. for credit ratings issued to issuers of government securities, municipal securities, or securities issued by a foreign government.

Note: The information shown above for each NRSRO was obtained from the U.S. SEC's web-site: www.Sec.gov/ocr on October 14, 2016 and confirmed against each NRSRO's annual FORM NRSRO certification.

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¹ Securities Exchange Act of 1934; Section 3. (a) When used in this title, unless the context otherwise requires (62) Nationally recognized statistical rating organization.—The term “nationally recognized statistical rating organization” means a credit rating agency that—
(A) issues credit ratings certified by qualified institutional buyers, in accordance with section 78o-7(a)(1)(B)(ix) of this title, with respect to—
(i) financial institutions, brokers, or dealers;
(ii) insurance companies;
(iii) corporate issuers;
(iv) issuers of asset-backed securities (as that term is defined in section 1101(c) of part 229 of title 17, Code of Federal Regulations, as in effect on September 29, 2006);
(v) issuers of government securities, municipal securities, or securities issued by a foreign government; or
(vi) a combination of one or more categories of obligors described in any of clauses (i) through (v); and
(B) is registered under section 78o-7 of this title.

² The following excepted information appears on the SEC's website as of October 14, 2016 (emphasis added).

SECURITIES EXCHANGE ACT OF 1934 Release No. 56511/September 24, 2007 ORDER GRANTING REGISTRATION OF **MOODY'S INVESTORS SERVICE, INC.** ... (as an NRSRO) for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act ... IT IS ORDERED, ... that the registration of Moody's Investors Service, Inc. with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act is granted ...

SECURITIES EXCHANGE ACT OF 1934 Release No. 34-56513/September 24, 2007 ORDER GRANTING REGISTRATION OF **STANDARD & POOR'S RATINGS SERVICES** ... (as an NRSRO) for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act ... IT IS ORDERED, ... that the registration of Standard & Poor's Ratings Services with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act is granted ...

SECURITIES EXCHANGE ACT OF 1934 Release No. 34-56509/September 24, 2007 ORDER GRANTING REGISTRATION OF **FITCH, INC.** ... (as an NRSRO) for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act ... IT IS ORDERED, ... that the registration of Fitch, Inc. with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act is granted ...

SECURITIES EXCHANGE ACT OF 1934 Release No. 34-56508/September 24, 2007 ORDER GRANTING REGISTRATION OF **DBRS LIMITED** ... (as an NRSRO) for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act ... IT IS ORDERED, ... that the registration of DBRS Limited with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act is granted.

Release No. 34-56507/September 24, 2007

ORDER GRANTING REGISTRATION OF **A.M. BEST COMPANY, INC.** (as an NRSRO) for the classes of credit ratings described in clauses (i) through (iv) of Section 3(a)(62)(B) of the Exchange Act ... IT IS ORDERED, ... that the registration of A.M. Best Company, Inc. with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (iv) of Section 3(a)(62)(B) of the Exchange Act is granted. **Registration as a Nationally Recognized Statistical Rating Organization (NRSRO) With Respect to Financial Institutions** On Sept. 24, 2007, the Commission issued an order granting the registration of **AM Best** as an NRSRO in the following classes of credit ratings: (1) financial institutions; (2) insurance companies; (3) corporate issuers; and (4) issuers of asset-backed securities. On March 29, 2011, AM Best furnished to the Commission on Form NRSRO a notice of withdrawal from registration in the category of financial institutions. Pursuant to Rule 17g-1 under the Exchange Act, AM Best's withdrawal from registration in the category of financial institutions became effective on May 13, 2011, 45 calendar days after the notice was furnished to the Commission. Thus, as of May 13, 2011, AM Best should not be treated as an NRSRO with respect to credit ratings for financial institutions.

SECURITIES EXCHANGE ACT OF 1934 Release No. 58000 / June 23, 2008 ORDER GRANTING REGISTRATION OF **REALPOINT LLC** ... (as an NRSRO) for the class of credit ratings described in clause (iv) of Section 3(a)(62)(B) of the Exchange Act ... Based on the application and Exemptive Order, the Commission finds that the requirements of Section 15E of the Exchange Act are satisfied. Accordingly, IT IS ORDERED, ... that the registration of Realpoint LLC with the Commission as an NRSRO under Section 15E of the Exchange Act for the class of credit ratings described in clause (iv) of Section 3(a)(62)(B) of the Exchange Act is granted.

SECURITIES AND EXCHANGE COMMISSION Release No. 34-78671 August 24, 2016

Order Granting Registration of Morningstar Credit Ratings, LLC for Two Additional Classes of Credit Ratings ... Morningstar Credit Ratings, LLC ("Morningstar") is a credit rating agency registered as an NRSRO under the Exchange Act in the asset-backed securities class of credit ratings described in clause (iv) of section 3(a)(62)(A) of the Exchange Act. On July 1, 2016, Morningstar filed with the Commission an application on Form NRSRO to add the classes of credit ratings described in clauses (i) and (iii) of section 3(a)(62)(A) of the Exchange Act ("financial institutions class" and "corporate issuers class," respectively) ... Based on the information in Morningstar's application and on the Exemptive Order, the Commission, pursuant to section 15E(a)(2)(C) of the Exchange Act, finds that the requirements of section 15E of the Exchange Act are satisfied and does not find grounds for denying registration.

SECURITIES EXCHANGE ACT OF 1934 Release No. 57300 / February 11, 2008 ORDER GRANTING REGISTRATION OF **LACE FINANCIAL CORP** ... (as an NRSRO) for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act ... Based on the application and Exemptive Order, the Commission finds that the requirements of Section 15E of the Exchange Act are satisfied. Accordingly, IT IS ORDERED, ... that the registration of LACE Financial Corp. with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (v) of Section 3(a)(62)(B) of the Exchange Act is granted ...

SECURITIES EXCHANGE ACT OF 1934 Release No. 57031/December 21, 2007 ORDER GRANTING REGISTRATION OF **EGAN-JONES RATING COMPANY** ... (as an NRSRO) for the classes of credit ratings described in clauses (i) through (iii) of Section 3(a)(62)(B) of the Exchange Act ... IT IS ORDERED, under paragraph (a)(2)(A) of Section 15E of the Exchange Act, that the registration of Egan-Jones Rating Company with the Commission as an NRSRO under Section 15E of the Exchange Act for the classes of credit ratings described in clauses (i) through (iii) of Section 3(a)(62)(B) of the Exchange Act is granted. SECURITIES EXCHANGE ACT OF 1934 Release No. 59056/December 4, 2008 ORDER GRANTING REGISTRATION OF **EGAN-JONES RATING COMPANY TO ADD TWO ADDITIONAL CLASSES OF CREDIT RATINGS** Egan-Jones Rating Company, ... (registered) for the two classes of credit ratings described in clauses (iv) and (v) of Section 3(a)(62)(B) of the Exchange Act ... IT IS ORDERED, under paragraph (a)(2) of Section 15E of the Exchange Act, that the registration of Egan-Jones Rating Company with the Commission for the classes of credit ratings described in clauses (iv) and (v) of Section 3(a)(62)(B) of the Exchange Act is granted.

SECURITIES EXCHANGE ACT OF 1934 Release No. 34-68160/November 5, 2012 ORDER GRANTING REGISTRATION OF **HR RATINGS DE MÉXICO, S.A. DE C.V.** ... (as an NRSRO) for the class of credit ratings described in clause (v) of Section 3(a)(62)(A) of the Exchange Act. ... IT IS ORDERED, under paragraph (a)(2)(A) of Section 15E of the Exchange Act, that the registration of HR Ratings de México, S.A. de C.V. with the Commission as an NRSRO under Section 15E of the Exchange Act for the class of credit ratings described in clause (v) of Section 3(a)(62)(A) of the Exchange Act is granted ...